

VZCZCXRO5714
RR RUEHDA
DE RUEHAK #0123/01 0231143
ZNR UUUUU ZZH
R 231143Z JAN 07 ZDK
FM AMEMBASSY ANKARA
TO RUEHC/SECSTATE WASHDC 0653
INFO RUCPDOG/USDOC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHIT/AMCONSUL ISTANBUL 1974
RUEHDA/AMCONSUL ADANA 1559

UNCLAS SECTION 01 OF 02 ANKARA 000123

SIPDIS

SENSITIVE
SIPDIS

PASS USTR FOR ERRION

E.O. 12958: N/A
TAGS: [ETRD](#) [BEXP](#) [PREL](#) [TU](#)
SUBJECT: Turkey: U.S. Companies Worried about Business

ANKARA 00000123 001.2 OF 002

1. (SBU) Summary. Many U.S. companies in Turkey feel they are missing out on Turkey's economic boom. They blame the persistence of traditional ways of doing business, including corruption and opaque regulatory practices, but also fault U.S. companies' lack of awareness of the substantial improvements in the business climate since 2002. They fear that possible Congressional approval of a Resolution condemning an "Armenian genocide" would give European and Asian competitors an even stronger advantage. End Summary.

U.S. MARKET SHARE FALLING

2. (SBU) At a January 17 meeting with American Business Forum (ABFT) members in Istanbul, U.S. company representatives described their ongoing frustrations with doing business in Turkey. The three year old ABFT is one of the two U.S. Chamber of Commerce-designated "AmChams" in Turkey (the other being the Turkish American Business Association - TABA), but is the most representative of U.S. companies. The businesspeople noted that U.S. business is not, overall, participating in the boom in the Turkish economy and trade. For example, Turkey's imports from the U.S. have expanded by only 37% since 2000, far less than the 114% growth of total Turkish imports. Similarly, on the investment side, the representative of a U.S. bank noted that apart from a handful of very large recent investments in the financial services sector, American companies are not investing in Turkey, although more and more are shopping around for local acquisitions.

LACK OF TRANSPARENCY

3. (SBU) They attribute this, perhaps in equal measure, to American companies not being aware of new opportunities and to the persistence of traditional ways of doing business. Corruption, lack of transparency, and an unpredictable judicial process remain problems across sectors. Pharmaceutical companies, for instance, complain about an opaque, time consuming, and apparently arbitrary system for approval of social security reimbursement for new products. This is crucial, since 90% of Turkey's health spending is funneled through the social security system. In the burgeoning real estate sector, companies complain about payoff requests by local officials and problems getting regulatory approval to offer title insurance. The operator of an industrial park said there remained a general lack of legal predictability, citing the unexpected revocation of tax breaks for investments in his park in Izmir. In general, distortions related to the very high rates of tax evasion are a problem in almost all sectors.

LACK OF AWARENESS

14. (SBU) Meanwhile, the business people say U.S. companies are missing opportunities because they have failed to take note of the real improvements in the regulatory and macro climate in the past few years. Thus, U.S. companies are losing out on new business that is instead going to European and Asian companies, particularly for major projects. The representative of a large U.S. engineering company pointed to the lack of U.S. interest in the Samsun-Ceyhan oil pipeline and related refinery projects, in which Italian, Russian and Indian companies are taking the lead. Another noted the multitude of projects and conferences sponsored by the European Commission and EU members to help prepare Turkey for EU membership. U.S. companies are not formally excluded, but tend not to take advantage of the networking and consciousness-raising opportunities these projects and events provide.

"GENOCIDE" RESOLUTION WOULD FURTHER DAMAGE

15. (SBU) All of the companies expressed alarm over the possibility of Congress passing an "Armenian Genocide Resolution" this spring. They noted that business decisions here often follow public opinion and that how the Turkish government reacts to such a resolution - particularly in an election year - could have a decisive impact in shaping opinion, and hence on business relations. The French National Assembly's approval of a bill criminalizing Armenian genocide-denial is inhibiting new business with French companies, even if existing business was little affected (this despite the likelihood that any U.S. resolution would be milder than that of the French). The reaction against U.S. actions would, however, be harsher, they believe. Thus, passage would further increase the edge of European and Asian companies. Recovery from such a blow would be difficult but not impossible. One businessman felt that

ANKARA 00000123 002 OF 002

decisive U.S. action against the PKK in Northern Iraq would reverse much of the damage from a resolution.

COMMENT

16. (SBU) Comment: There have indeed been significant improvements in Turkey's business climate in the past five years, particularly in the creation of a stable macro environment and reduction of red tape. This has led to a private investment- and consumption-led boom. Istanbul is blossoming as a regional business center. One businessman noted, however, that even if Turkey is making progress, it is not doing so as quickly or consistently as comparable countries in Eastern Europe and Asia. For example, Turkey is stuck in the middle of most "doing business" indices, such as those of Transparency International, the World Bank, and AEI's Index of Economic Freedom. This lack of relative progress may deter American companies more than it deters European. The group we met was not representative of all U.S. business here in that it did not include the U.S. companies that are successfully expanding their business here, like Microsoft, Cisco, Citibank and Ford. Even so, these companies and others (like Cargill) have legitimate issues that they look forward to explaining to Economic Partnership Commission members next month in Istanbul and Ankara.
Wilson